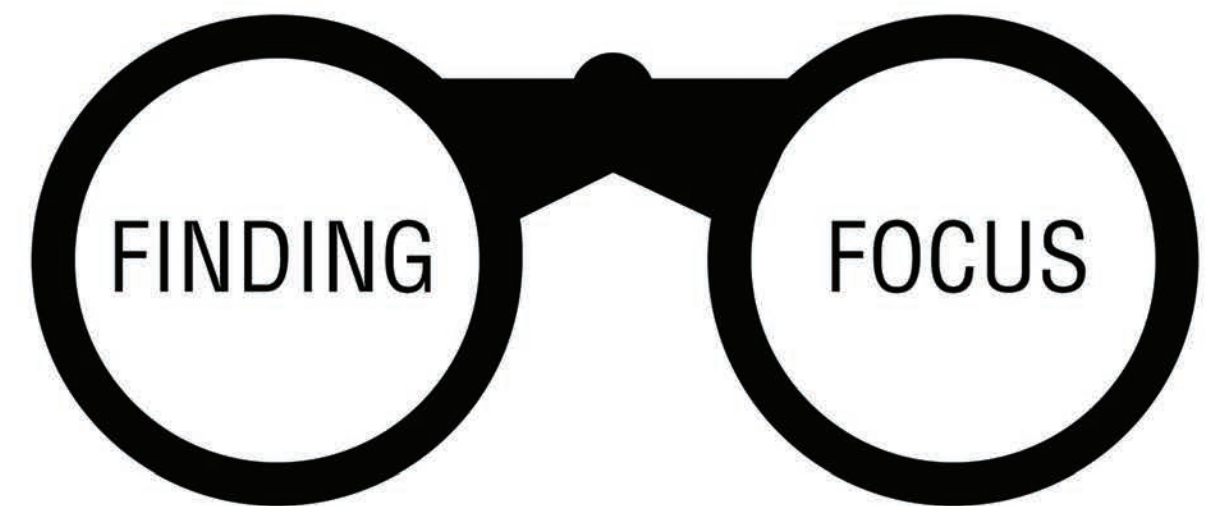


**Making Governance  
a Shared Responsibility**



Institute for Solidarity in Asia  
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Makati City 1200 Philippines  
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Our 2013 Report

# VISION

TO BECOME THE LEADING PUBLIC GOVERNANCE REFORM INSTITUTE IN EAST ASIA BY 2020

# MISSION

To build a collaborative network of sectoral leaders, public officials and citizens committed to governance in all aspects and levels of society.

# ON THE COVER

Our theme, “Finding Focus”, represents the kind of work we did in 2013: encouraging government institutions to commit to specific goals and enabling them to work toward these goals with laser-like precision. We believe our good governance program is the lens through which our public sector partners are able to view distant horizons with clarity.

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# THE NATIONAL SOLIDARITY COVENANT



Philippine society is in transition from its traditional political culture to a genuine democratic culture.

We seek to hasten that transition.

Philippine society labors under the weight of illegal, unethical, immoral practices of both rich and poor in government, business, and civil society.

We seek to end these practices.

More than one out of three Filipinos are mired in poverty.

We seek to eliminate poverty through honest and competent work.

We are unfazed by the bleak picture many paint of the present.

We trust in the creative energies of the human person.

We trust in the common sense of the Filipino.

We trust in the inherent power of goodness.

We are ready to lead change, beginning with ourselves.

We are ready to help others to change, one by one.

And we pledge to keep these commitments, while urging people to change – however long it may take, here, in the Philippines.



## MESSAGE FROM THE CHAIRMAN



Whenever we work with public sector organizations, we often find ourselves in the company of leaders fighting in support of “big, hairy, audacious” goals. And while creativity, determination, and perseverance are chief and indispensable strengths, there is one other thing that matters: *focus*.

In 2013, we were able to put this idea to the test when five of our government partners volunteered to undergo third-party performance audits as part of our good governance program, the Performance Governance System (PGS). We are happy to share the results with you in this annual report, along with more stories of progress that can be attributed to finding focus.

Recognizing that many eyes are on the Philippines in light of our being chosen to host two major economic events—the 2014 World Economic Forum (WEF) for East Asia and the 2015 Asia-Pacific Economic Cooperation (APEC) Summit—we launched the Islands of Good Governance (IGG) campaign to encourage more government organizations to showcase the progress the country has made through governance.

At the local level, eight cities and one province were chosen as pilot participants in the campaign. With newfound appreciation of their role as engines of sustainable and inclusive growth, they spent the year repositioning themselves according to their specific economic potentials. At the national level, our next milestone year, 2015, looks equally promising. By that time, several cabinet departments and uniformed service organizations alike will be demonstrating how good governance practices have enabled them to deliver real transformation.

Finally, together with the Institute of Corporate Directors (ICD), which advocates governance in the private sector, we in the Institute for Solidarity in Asia (ISA) received the Hernando de Soto Award for Democracy from the Center for International Private Enterprise (CIPE) in Washington D.C. for our work in public governance. We are thankful for this recognition, achieved after more than a decade of working toward the singular goal of making governance a shared responsibility.

Year after year, we have sought to rebuild our public sector institutions by reconnecting leaders with the right motivations and creating opportunities for citizen involvement. We are particularly proud of what we have accomplished in the past twelve months, which has reminded us of the importance of getting our government partners to focus on delivering breakthrough results.

Though there is always a fresh crop of issues waiting to be resolved, working with public sector leaders who have dedicated themselves to the enormous task of transforming their institutions into transparent, successful, and sustainable ones, has made us hopeful for our country’s future. We look forward to widening the reach of our advocacy so that more national government organizations and local government units can become part of our journey toward transformation and world-class performance, with significant citizen participation.

We are reassured that transformation is worth the work it takes. To help shape the lives of public sector organizations through good governance is a privilege.

JESUS P. ESTANISLAO, PH.D.  
CHAIRMAN, INSTITUTE FOR SOLIDARITY IN ASIA



Within a demanding schedule that finds us flying to the regions nearly every week and heading into the field almost twice daily to connect with partners, we in the Institute for Solidarity in Asia (ISA) are happy to take a moment to celebrate what we accomplished in the past year.

At the local level, we worked closely with eight city governments and one provincial government under the Islands of Good Governance (IGG) campaign, guiding them in coming up with specific solutions to the critical issue of local sustainability in the next ten years. Three of these cities—Masbate, San Fernando La Union, and Balanga—qualified for completion of the third stage of our governance program after effectively setting up the infrastructure that will allow them to take the lead in reforming and developing their communities.

At the national level, two organizations—the Civil Service Commission and the Philippine Army—took significant steps toward becoming well-loved, world-class government institutions. Now preparing to complete all four stages of the governance pathway, they represent a vibrant roster of current partners that includes seven more public institutions and two schools. We are inspired by these new additions to the governance community and by new developments that complement the work that is ongoing in other organizations.

We continue to collaborate with cabinet and oversight departments as part of an anti-corruption agreement with the United States’ Millennium Challenge Corporation (MCC) and through a firm partnership with the National Competitiveness Council (NCC). Our current initiative, the IGG campaign, is a follow-up to our success in requiring government agencies to make public performance reports before discerning citizens who can represent public interest and awareness. We are confident that in the next two years, partner organizations that have signed up to take part in the campaign will be able to deliver the breakthrough results our country needs to be at par with other developing economies.

To help them get there, we developed two specific interventions that are meant to provide focus within the workplace. The first, *execution planning*, can be done by any partner organization in any level of the governance pathway. It involves the identification of monthly deliverables that can contribute to the completion of strategic projects. The second, *process coaching*, helps teams define guidelines for weekly meetings. Through this intervention, we are also able to remind them of the importance of celebrating quick wins under their governance programs.

In 2013, we brought fresh and focused ideas into our development activities and events, which were likewise organized in support of our next milestone year, 2015. We reached out to over 200 government leaders through our governance boot camps, and to more than a thousand private and public sector delegates through our twice-annual public governance forum. With institutional support from the Development Bank of the Philippines, Unionbank, Ancilla Enterprise Development Consulting Group, and Center for International Private Enterprise, we were able to create venues for best-practice sharing and community-building among government organizations and individuals.

What began as an aspiration on the part of a few citizens has now blossomed into a conscious effort that brings leaders and citizens together in search of development. Looking back on how much our public governance advocacy has grown in recent years, we are driven to accomplish more.

We are grateful to all those who have made it possible for us to help introduce change into government.



**FRANCISCO C. EIZMENDI, JR.**  
**PRESIDENT, INSTITUTE FOR SOLIDARITY IN ASIA**



PRESIDENT’S REPORT

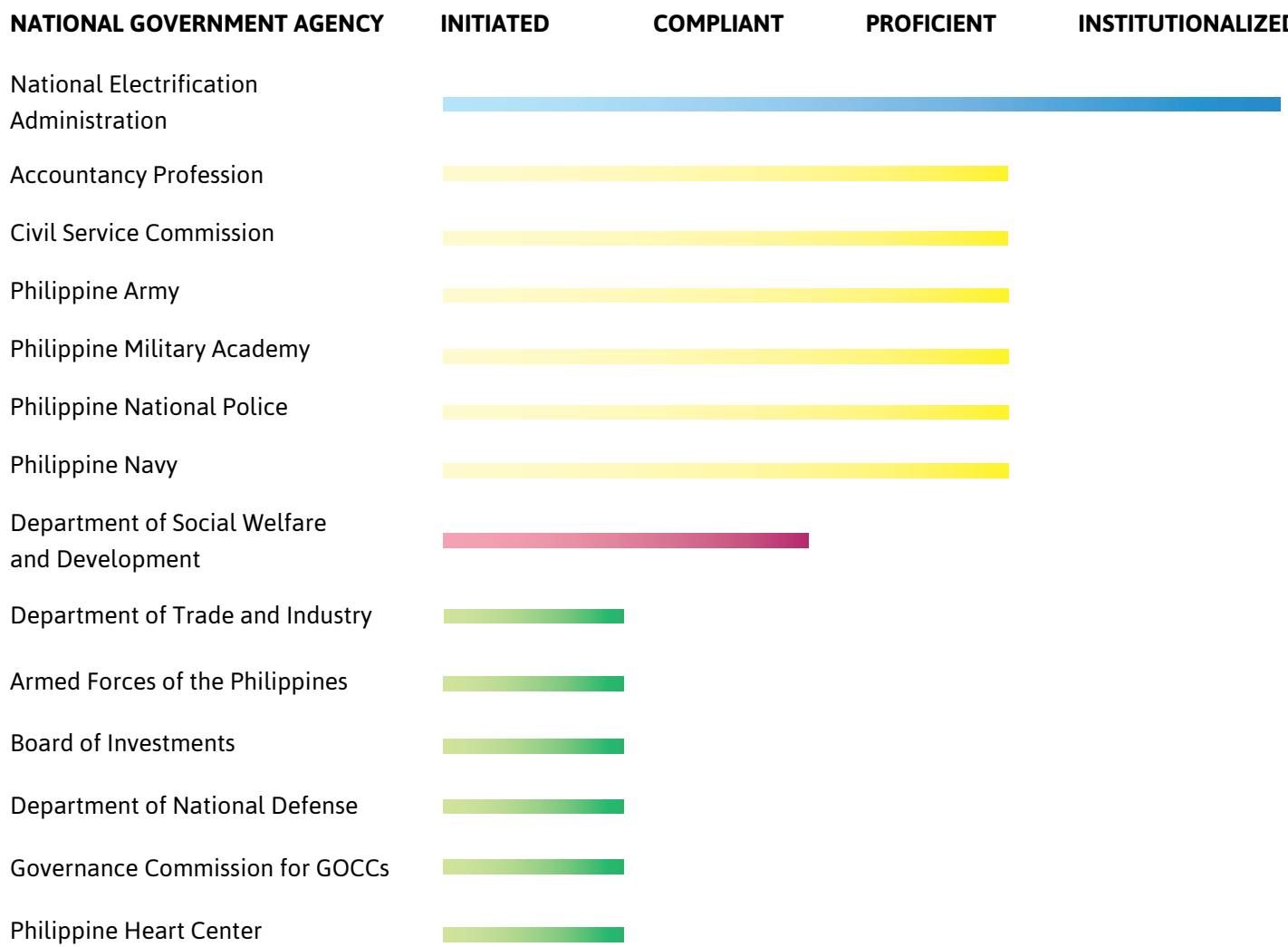


# PARTNERS IN THE GOVERNANCE PATHWAY

## National Government Agencies

Of the fourteen national and sectoral institutions we worked with this year, nine are qualifying to become part of the Islands of Good Governance public sector showcase in 2015. Four of these organizations are part of the country’s uniformed services, which continue to work toward proper defense of sovereignty and efficiency among personnel.

A national government agency is considered active if it has participated a Performance Governance System intervention or activity within twelve months.



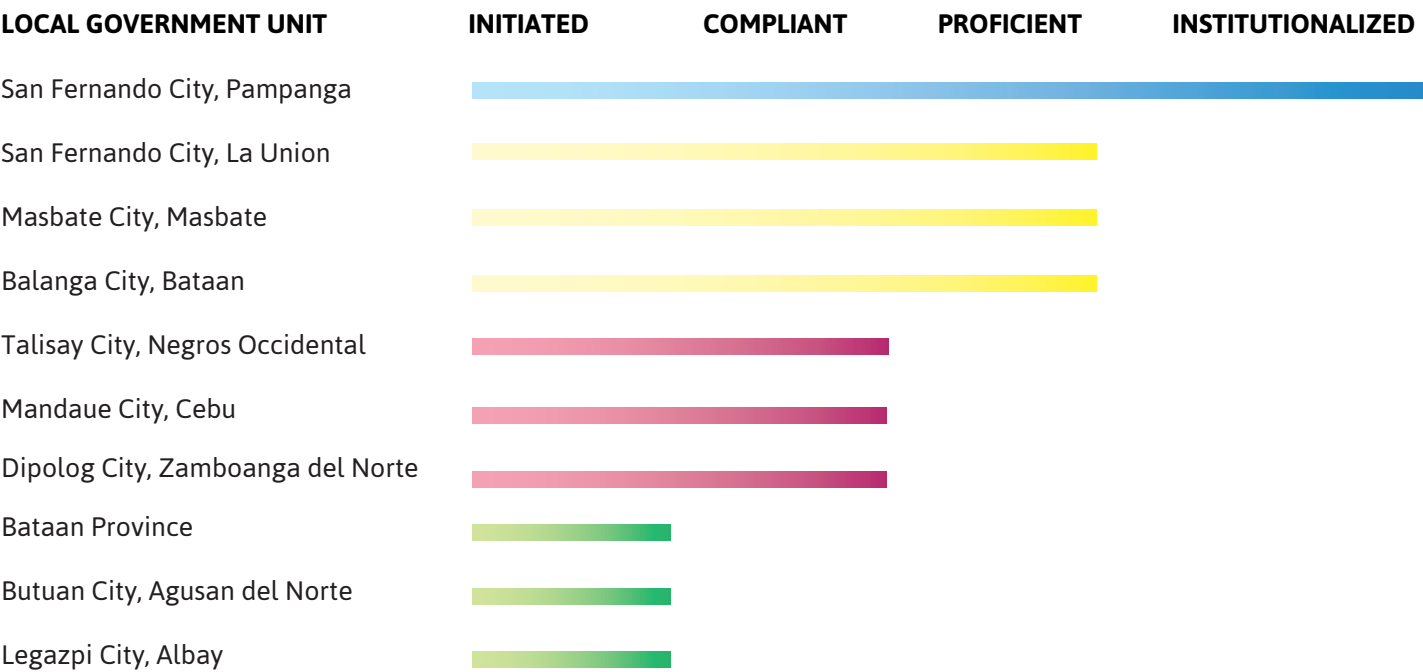
## Academic Institutions

This year, the PAREF Springdale School for Boys in Cebu was initiated into the governance pathway. We also did work with two higher learning institutions, De La Salle University’s College of St. Benilde in Manila and the University of San Agustin in Iloilo. They are currently under the care of our Program Management Unit for National Government Agencies.

## Local Government Units

After the launching of the Islands of Good Governance initiative, ten local government units (LGUs) stepped up to the plate and signified their intention to meet its rigorous requirements. Eight of these LGUs were already previously involved in the governance pathway, while two—Bataan Province and Butuan City—were adopting the PGS program for the first time. This initial batch of IGG LGU aspirants comes from seven regions: 1, 3, 5, 6, 7, 9, and CARAGA.

The vision statements of the participating LGUs cover the entire range of the economic sector. The cities of Dipolog, Legazpi, and San Fernando Pampanga aim to excel in tourism-oriented industries. Masbate wants to rise in the value chain through agro-processing, while Butuan is focusing on agro-forestry opportunities. Balanga City, Bataan Province, Talisay City, and San Fernando La Union City are developing service-related sectors. Finally, Mandaue, a strong export manufacturing hub outside Manila seeks to revitalize its furniture manufacturing industry after a slump in demand.



## Open Platform Partners

Partners can choose to participate in specific Performance Governance System interventions under the open platform program. In 2013, the Institute for Solidarity in Asia worked with the following attached agencies of the Department of Trade and Industry:

- Center for International Trade Expositions and Missions
- Construction Industry Authority of the Philippines
- National Development Company
- Product Development and Design Center of the Philippines
- Philippine Economic Zone Authority



# TABULA RASA

Nine local government units are determined to pursue development the right way even if it has meant starting anew.

Words: Marielle Antonio Layout: Nina Alonzo  
Photo: City Government of Dipolog

Five years ago, Masbate city put together a ten-year development strategy under the broad goal of becoming the country's leading marine sanctuary. Since then, local leadership has been able to create an efficient strategy management team, put its resources to good use, and involve the community in transformative projects. Once these governance mechanisms were in place, however, the city found itself at a crossroads. The 250-hectare sandbar and marine sanctuary it had placed at the center of its development strategy could only provide livelihood for a few fishermen in a single barangay, and while the area continued to draw tourists and diving enthusiasts, the marine sanctuary was neither the largest one in the country nor the key to inclusive growth.

At first, the city struggled to reconcile years of hard work with the idea of starting from scratch. Coming up with an entirely new development strategy meant that the local chief executive would have to publicly declare a change in agenda and risk losing support, but in the end the city government realized that the possibilities far outweighed the consequences.

It didn't take long for the city government to discover that its true economic potential lay in its proud ranching traditions. Deciding that it was time for the community to take full ownership of its cattle-raising industry, the leadership team studied the possibility of giving ranchers the opportunity to sell their own free-range cattle as certified organic beef. The idea was

received warmly by the private sector, which pledged its support of the city's bid to become "the top producer of organic beef in the country." Today, Masbate is one of nine local government units to take part in the Islands of Good Governance campaign, whose goal is to showcase transformation in the public sector. Under this initiative, city and provincial governments are required to commit to a development plan that supports a 2020 vision, and to deliver breakthrough results in 2015 using ISA's Performance Governance System as a strategy execution framework.

Like Masbate, the cities of Balanga and San Fernando La Union, which had already made significant progress under their governance programs, opted to come up

with more specific development goals in anticipation of future needs. Balanga, whose focus has been on developing schools, universities, and scholarship programs, now aspires to create well-paying jobs for its graduates by growing its business process outsourcing (BPO) industry. The city intends to rank "among the top five IT-BPO locations in the Philippines" and to contribute to the province's goal of becoming "the preferred location for eco-industrial investments in the Philippines." Local leadership is certain that businesses can flourish in Bataan, where resources are abundant and competitively priced. In addition, investors will be able to contribute to the well-being and livelihood of communities in eco-industrial areas, thereby helping the province increase its human development index.

FORWARD AS ONE  
Cyclists race toward the finish line at the Zamboanga Athletic Meet in Dipolog City, whose vision is to become the "Sports Event Center of the South" in 2020.





Local leaders meet to discuss their development strategies as “Islands of Good Governance” at ISA’s October 2013 Public Governance Forum.

Meanwhile, San Fernando La Union has chosen to make the most out of its peaceful seaside location, which is only a few hours away from busy cities like Manila, Baguio, and Ilocos. Now already a well-loved surfing destination, San Fernando is determined to become “Northern Luzon’s center for health and wellness” with plans already being made to put up traditional and non-traditional therapy and rehabilitation facilities throughout the area.

In Talisay in Negros Occidental the city government’s development plan is also inspired by the landscape. Surrounded by mountain ranges and five minutes away from an international airport, the city is confident about being able to share its peaceful, organic hacienda lifestyle with a local and foreign market that is looking to spend on such an experience. Within six years, Talisay is determined to rank “among the top five retirement destinations in the Philippines.”

In Mindanao, Butuan City is determined to restore its economic dominance by focusing on massive tree-planting programs in its expansive land area. While natural forests have all been denuded, the land and climate are still conducive for production forests. Currently, Butuan’s community-based program that intends to bring the income opportunities of an industrial tree-farming business model down to marginal farmers is gaining traction, and the local chief executive’s contagious determination and passion have been steadily gaining support from every city sector.

For Mandaue, one of three highly urbanized cities in the province of Cebu, the goal is to design a consumer experience around the products that first put the city on the map. After the decline of its foreign export industry some years ago, it is now focusing on connecting to the local market more intimately. For the city, “becoming the primary source of high quality consumer products” means letting buyers into factories to see how furniture and other manufactured items are made, and allowing them to purchase products directly from the workshop.

Legazpi, also a well-known destination, is raring to showcase more of the city to tourists who are drawn there by the world-famous Mayon Volcano. Beyond its historic and cultural accomplishments, Legazpi aspires to rank “among the top five convention centers in Luzon” within the decade. Now more than ten notches below conference hot spots Manila, Baguio, Cebu, and Subic, the city plans to catch up by making sure that it remains attractive to tourists and that its hotels and convention venues are capable of accommodating delegates by the thousands. One of the leadership team’s breakthrough goals is to design the “Legazpi experience” to make visits to the city unforgettable.

While most cities in the campaign have been able to build development strategies around sleeping economic strengths, the city of Dipolog is taking an alternative approach by creating its own competitive advantage. Wanting to put to rest gross misconceptions



The first batch of local chief executives to join the IGG initiative (L-R): Mayor Pablo C. Ortega of San Fernando La Union; Mayor Noel E. Rosal of Legazpi City; Mayor Ferdinand M. Amante, Jr. of Butuan City; Governor Albert S. Garcia of Bataan Province; Mayor Rowena R. Tuason of Masbate City; Mayor Evelyn T. Uy of Dipolog City; Mayor Eric M. Saratan of Talisay City; Mayor Jose Enrique S. Garcia of Balanga City; Mayor Jonas C. Cortes of Mandaue City; and Mayor Edwin D. Santiago of San Fernando Pampanga.

about its being located near conflict areas in Zamboanga del Sur, the city is now working toward becoming the “Sports Event Center of the South” to give people a reason to visit. In the next six years, the city government is expected to turn a significant portion of Dipolog’s vast and beautiful landscape into venues for outdoor sports. Local leadership is confident that this tourism “hook” will raise cultural awareness and generate enough economic impact to sustain the city in the long-term.

Working toward newly-set milestone years, breakthrough results, and international recognition, these local governments are making an effort to create change within their organizations and communities with a deeper sense of urgency. Though

the stakes are different for each of them, the Islands of Good Governance initiative, which encourages horizontal learning, has inspired them to put up a united front. Now, transformation is driven not only by competitiveness but by a collective desire to show the world what Philippine communities are capable of.

For local leadership teams, 2015 is a make-or-break period that will determine whether or not they can execute their development strategies in the next five years. After accomplishing job one—the creation of specific plans for local economic growth—the next important step is to stay the course. With focus, these local governments will surely be able to prove that governance is not just a way out of corruption but the way forward.

## THE IDEAL VISION

In helping local government partners create clear, compelling, and transformative vision statements, ISA refers to the parameters prescribed by Balanced Scorecard creators Robert Kaplan and David Norton. According to them a good vision statement can be tested against the following:

- 1 A **niche** the organization fits perfectly in and that differentiates them from others
- 2 A **stretch goal**—something new and ambitious that will require the organization to push itself to the limit
- 3 A **five- to ten-year** deadline in which to track performance



# MEANINGFUL IMPACT

National government agencies continue to work toward real and lasting transformation, with 2015 as their next big milestone year.

Words: Marielle Antonio    Layout: Nina Alonzo  
Photo: Armed Forces of the Philippines

**CLOSE TO SHORE**  
Soldiers paddle in unison to complete a military training exercise conducted by the Armed Forces of the Philippines, which aspires to become mission-capable by 2015.

There has recently been a lot of talk about all-time highs in the Philippine stock exchange and about improvements in the country's competitiveness rankings and investment credibility. To a select few, these words imply progress; but for the man on the street, they mean very little until they create ground impact.

The same can be said of transformation programs in the Philippine government. While several public sector institutions have been taking significant steps toward eliminating corruption, many Filipinos remain sceptical about the credibility of their governance campaigns, mainly because they cannot feel the effects of these programs in their daily lives.

One reason for this is that the national government has had to spend some time addressing issues of internal transparency, efficiency, and sustainability. Once the necessary governance mechanisms are in place, the social impact of transformation programs like the Performance Governance System (PGS) will become more obvious. To this end, national government agencies that have been implementing institutional reforms (some beginning as early as 2008) are preparing to make good on their commitments to produce high-impact results in the next two years.

These key agencies, which include the Bureau of Internal Revenue, Civil Service Commission, Department of Education, Department of Health,

Department of Social Welfare and Development, Department of Trade and Industry, Philippine National Police, Governance Commission for GOCCs, National Electrification Administration, Philippine Heart Center, Armed Forces of the Philippines, Philippine Army, and Philippine Navy are determined to become "Islands of Good Governance" (IGG) in 2015, an important year for the country in terms of its involvement in regional economic activities. This initiative, which was organized by the Institute for Solidarity in Asia in collaboration with the National Competitiveness Council, calls for breakthrough results that can be showcased as effects of a sustained public governance program at the Asia Pacific Economic Cooperation (APEC) Summit.

Although these agencies are expected to meet a number of social impact objectives under their long-term transformation programs, the 2015 target date has pushed them to identify which goals should be made top priorities. Not surprisingly, most of them have chosen to focus on improving the basic services that can make a huge difference in the daily lives of Filipinos.

The Department of Public Works and Highways (DPWH), for example, aims to increase connectivity by completely paving all national arterial roads, with both major and secondary roads receiving upgrades in quality and safety. Meanwhile, the Philippine National



Photos (Right page)  
National government leaders present  
their 2015 commitments before an advisory panel  
led by the Institute for Solidarity in Asia  
and the National Competitiveness Council  
with support from representatives  
of the APEC summit council.

Police (PNP) is bent on improving crime solution efficiency and on reducing street crime by 50% in Metro Manila and other highly-urbanized cities. Under this goal, they are working on increasing police visibility to make communities feel safer. Both breakthroughs are likely to have immediate effects. With fixed highways and more and better roads between rural and urban areas, traffic will decrease and businesses can thrive due to increased mobility. And with sustained peace and order, people will become more confident about living and investing in Philippine cities.

For organizations like the Department of Social Welfare and Development (DSWD), the IGG campaign has been a helpful reminder that breakthrough goals can only be achieved through collective effort. Whereas the department used to work as if it were entirely accountable for poverty reduction, it now seeks to contribute through targeted efforts like raising 2.3 million families to self-sufficiency through the Pantawid Pamilya Program (PPP), and to build local centers that can respond more quickly to community needs.

Another organization that currently finds itself taking on added responsibility is the Armed Forces of the Philippines (AFP), which has had to concentrate on resolving internal security issues. One of its breakthrough goals is to increase the number of provinces where local government units are primarily responsible for peace and order. If it is able to “normalize” more areas within the country,

the AFP will be able to rightly direct its resources toward territorial defense and the protection of state sovereignty. The Philippine Army, also largely involved in “winning the peace” in conflict areas in the regions, is working toward raising its overall operational readiness to 80% in support of this goal.

Besides wanting to become mission-capable, uniformed services like the AFP, Philippine Army, and Philippine Navy possess an ardent desire to be perceived as credible state institutions that are loved by the people. They have this in common with other national government agencies who see the IGG initiative as an opportunity to communicate that they are doing significant work despite the issues surrounding the Philippine bureaucracy. The Civil Service Commission (CSC), which functions as its human resource arm, is in fact working doubly hard to ensure that government institutions are functioning efficiently and transparently.

In the build-up to these milestones, the organizations under the IGG campaign continue to strengthen ties with internal and external stakeholders (including other government agencies and local government units) whose support and participation are needed to achieve the identified breakthrough goals. In solidarity, they are confident about creating meaningful impact that can transform lives; and by 2015, they will be ready to show the world that the Philippines can become islands of good governance and a stronger, more competitive nation.



## DRAMATIC DELIVERY

After a significant amount of time spent implementing reforms in their organizations, national government agencies are learning to set goals that can show the kind of impact they want to make on society. To demonstrate dramatic outcomes after years of effort, they must deliver breakthrough goals that are:

- 1 Mandate-related**, defining strategic focus within an indicated timeline
- 2 Directly controllable** by the organization by at least 80 per cent
- 3 Transformative**, such that the organization is able to create positive change and contribute to society



GOVERNANCE  
THAT  
DELIVERS

When public sector partners are declared “Proficient” in the Performance Governance System (PGS), it means they have become well-oiled machines able to make use of governance mechanisms and engage stakeholders to produce results, just as these five organizations did in the 2012-2013 period.

Words: Marielle Antonio  
Layout: Nina Alonzo

With photos and data from the five offices of strategy management (OSMs) of the featured organizations, and with data from performance audits by the Institute of Internal Auditors Philippines (IIA-P) and from the National Competitiveness Council (NCC)

CITY OF  
BALANGA

P171-M

Total local income from P140-M in 2011, attributed to automation of processes, tax efficiency, and revenue from private-public partnerships

137

Number of locally owned small-medium enterprises with at least P3M capitalization from 110 in 2011

87,310

Number of tourist arrivals from 44,503 in 2011, due to the development of its Wetland and Nature Park, which is also being marketed by DOT as a national tourist destination

15%

Poverty incidence rate from 18.6% in 2011

\*National poverty incidence rate in 2012 was 27.9%

CITY OF  
SAN FERNANDO  
LA UNION

P100-M

Amount invested by a large enterprise in an identified investible area in 2013, from a baseline of zero investments in 2011

10

Number of barangays that are ISO-certified for environmental management in 2013, from a baseline of 5 in 2011

1.98 km

Length of streets and drainages cleared of obstruction in 2013 from a baseline of 0 in 2011, which contributes to flood-resiliency, walkability and orderliness

56%

Percentage of units able to accomplish commitments that are linked to the city’s development strategy

CITY OF  
MASBATE

95.80%

Anti-Red Tape Act compliance rating in 2013, the highest among the seven cities in the Bicol Region

96%

Percentage of departments in the city government with second-level scorecards

20

Rank in the first ever Cities and Municipalities Competitiveness Index, as measured by the National Competitiveness Council

P5.3-M

Amount of Real Property Tax collections in 2013

CIVIL SERVICE  
COMMISSION

85%

Percentage of high-density agencies, with 67.28% of service offices passing the Anti-Red Tape Act (ARTA) from 78% in 2011

10

Priority programs implemented through technical cooperation with local and international partners from 6 in 2011

56.66%

Percentage of cases resolved within 40 days from the time they are ripe for resolution

\*The law requires cases to be resolved within 60 days but CSC is maintaining an internal standard of 40 days

4

Number of ISO-certified core and support processes in 2013 from 0 in 2011

PHILIPPINE  
ARMY

+75

Net Trust Rating according to a survey conducted by Club Media Asia

+70

Net Satisfaction Rating according to a survey conducted by Club Media Asia

30%

Percentage of units directly engaged in territorial defense, security, and stability; and humanitarian assistance and disaster response with increased operational readiness

95%

Percentage of the budget allocated to strategic transformation projects



When Dr. Jesus P. Estanislao, chairman of the Institute for Solidarity in Asia (ISA), received the Hernando De Soto Award for Democracy in Washington D.C. on April 9, 2013 he spoke about the meaning of hope in the context of a third-world economy.

First, he described hope as an important part of transformation, which takes time and which can only happen within the boundaries of a true democracy. "We used to be indebted to many other countries," Estanislao shared. "Now we are a creditor country, and that is real transformation helped along by democratic practices."

Next, he declared that hope can be found in institutions, which are made to last. With time, they can be strengthened and transformed, such that their development is not dependent on any one person but on "continuing attention, effort, and innovation."

Third, he affirmed that hope is necessary to sustainability, and that change can only take place as a result of persistent and positive work. "We've got to worry about people, what they do within the organization, and how they make use of their resources," Estanislao added. "We can only be inspired by the possibility of improvement if we are able to look at the entire system."

Finally, he reminded those present that while hope can uplift, it is still necessary to work toward effective solutions to large-scale problems through a strategic, well thought-out approach. "In the end," Estanislao said, "the strategies that work are those that are based on deep convictions about freedom, innovation, and economic growth."

# WISDOM FROM THE THIRD WORLD

The word "hope" can mean many different things, and in a developing country like the Philippines it is necessary for each person to understand its value.

Words: Marielle Antonio and Isabel Camus Layout: Nina Alonzo  
Photo: Center for International Private Enterprise

## ICONS OF GOVERNANCE

ISA Founding Chairman Jesus Estanislao receives the 2013 democracy award from renowned Peruvian economist Hernando De Soto in a ceremony in Washington D.C.

For the Philippines, which only recently began to regain its footing after dealing with the repercussions of a twenty-year dictatorship, the transition to democracy has been a difficult one. And within a dominant political environment, the virtue of hope has become an important and increasingly relevant part of the country's journey toward true and lasting democratic freedom.

Estanislao, who is recognized as an icon of governance in both the public and the private sector, believes that advocacy groups and other non-profit organizations play a significant role in creating opportunities for optimistic dialogue. According to him, private enterprises like ISA whose goal is to improve public service by improving the way government works, can and should influence community perspective and encourage civic participation in public sector reform.

Upon accepting the Hernando De Soto Award, which is named after its first recipient and administered by the Center for International Private Enterprise, Estanislao remarked that it was "a dream and a privilege" to work alongside and follow in the footsteps of people and organizations whose efforts have opened doors for many others. "This award is a reminder of what hope can do for countries and economies in transition," he shared. "I accept it in behalf of all those who can think far into the future and come up with ways to get there. In short, this recognition is for persons and institutions that recognize the value of a democracy that delivers."



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President, Radio Mindanao Network

**DR. PERICLES P. DAKAY**  
President, Dakay Construction and Development Corp.

**MR. REX C. DRILON II**  
Trustee and Fellow, Institute for Solidarity in Asia

**PCSUPT REX MILTON A DOLINO (RET)**  
Supervising Fellow, Insitute for Solidarity in Asia

**DR. PAUL A. DUMOL**  
Associate Professor, University of Asia and the Pacific

**HON. FRANCISCO T. DUQUE III**  
Chairman, Civil Service Commission

**MR. FRANCISCO C. EIZMENDI, JR.**  
President, Institute for Solidarity in Asia

**MR. BALTAZAR N. ENDRIGA**  
Managing Partner, Endriga, Manangu and Associates

**DR. JESUS P. ESTANISLAO**  
Chairman, Institute for Solidarity in Asia

**MR. FRANCIS G. ESTRADA**  
Fellow and Trustee, Institute of Corporate Directors

**ATTY. RICHARD N. FERRER**  
Former President, Institute of Corporate Directors

**ATTY. ADELITA A. VERGEL DE DIOS**  
Former President, Institute for Corporate Directors

**HON. JOSE ENRIQUE S. GARCIA III**  
Mayor, City Government of Balanga

**HON. MA LOURDES C. FERNANDO**  
Former Mayor, City Government of Marikina

**DR. ANICETO B. FONTANILLA**  
President and CEO, The Asia-Pacific Centre for Research, Inc.

**HON. LINDA P. GONZALEZ**  
Former Mayor, Ligao City

**HON. ANTONIETA F. IBE**  
Commissioner, Securities and Exchange Commission

**ATTY. ALEXANDER L. LACSON**  
Senior Partner, Malcolm Law

**HON. DAN NERI LIM**  
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**MR. GUILLERMO M. LUZ**  
Private Sector Co-Chair, National Competitiveness Council

**GEN LEOPOLDO L MALIGALIG (RET)**  
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**MR. GREGORIO S. NAVARRO**  
Managing Partner and CEO, Deloitte Philippines

**HON. MARY JANE C. ORTEGA**  
Former Mayor, City of San Fernando La Union

**DR. CAYETANO W. PADERANGA**  
Former Director General, National Economic and Development Authority

**HON. OSCAR S. RODRIGUEZ**  
Congressman, Third Legislative District, Pampanga

**MR. CESAR G. SALDAÑA**  
Principal, PSR Consulting, Inc.

**HON. MEL S. SARMIENTO**  
Congressman, First Legislative District, Western Samar

**MS. EVELYN R. SINGSON**  
President, Gilt-Edge Properties, Inc.

**HON. ABRAHAM N. TOLENTINO**  
Former Mayor, City of Tagaytay

**HON. JERRY P. TREÑAS**  
Congressman, City of Iloilo



# ASSOCIATES



- MR. TOMAS C. AGUILAR, JR.**  
City Planning and Development Officer and Acting Administrator, Marikina City
- CAPT GIOVANNI J BACORDO**  
Former Deputy Commander, Naval Forces West, Palawan
- ENGR. FERDINAND Z. CAYLAO**  
Former City Administrator, San Fernando City Pampanga
- MR. FRANCISCO A. CAYMO**  
Division Manager of the Strategic Planning Division, National Electrification Administration
- MS. MARIA GRACIA A. CHUA**  
Former Development Project Management Officer IV, Iloilo City
- LTC ROMMEL C CORDOVA**  
Battalion Commander, Philippine Army
- LCDR EDWIN GERMAN A CORDOVA**  
Executive Assistant to the Superintendent, Philippine Military Academy
- BGEN FERMIN R DE LEON**  
President, National Defense College of the Philippines
- PCSUPT REX MILTON A DOLINO (RET)**  
Supervising Fellow, Institute for Solidarity in Asia
- MR. FERDINAND JOSEPH T. ESCOBAL**  
Senior Vice President for Strategic Affairs, Roxas Holdings

- MS. MA. SOCORRO L. ESCUETA**  
Consultant, EDUCHILD Foundation
- MR. BENITO T. JIMENA**  
City Tourism Officer, Iloilo City
- MS. LUCILLE Y. LAGUNAY**  
City Councilor, Tagbilaran City
- ENGR. FERDINAND A. LIMBITCO**  
City Administrator, San Fernando City
- MS. BETTY F. MERRITT**  
Member, Philippine Board of Nursing
- MR. JONATHAN JUAN DC. MORENO**  
Practice Leader for Corporate Governance & Managing Consultant for Phils., Palladium Group
- MR. RODERICK N. PADUA**  
Director for Corporate Planning, National Electrification Administration
- MS. MERLA A. ROSALADO**  
Executive Secretary of the Accreditation Office, Christ the King College
- MS. SONIA P. SOTO**  
VP-General Manager, CLTV36, San Fernando City
- MR. CHRISTIAN P. ZAENS**  
Executive Director, Institute for Solidarity in Asia

# LEADERSHIP TEAM AND STAFF



**DR. JESUS P. ESTANISLAO**  
Chairman  
Institute for Solidarity in Asia



**MR. FRANCISCO C. EIZMENDI, JR.**  
President  
Institute for Solidarity in Asia



**MR. CHRISTIAN P. ZAENS**  
Executive Director  
Institute for Solidarity in Asia

**GOV. OLIVER B. BUTALID**  
Supervising Fellow for Local Government Units

**PCSUPT REX MILTON A DOLINO (RET)**  
Supervising Fellow for National Government Agencies

## Program Management Unit Local Government Units

Senior Program Officer  
**Jeremy John R. Pintor**

Program Assistants  
**Josemaria Lorenzo P. Arguelles**  
**Ace Carlo B. Cabalquinto**  
**Marilyn D. Castino**  
**Yelena Victoria J. Lagman**  
**Jan-Ace R. Mendoza**  
**Jeshamar C. Villasis**

Student Intern  
**Damien D. Durrourx**

## Communication and Development Unit

Program Officer  
**Maria Teresa Garcia-Mauricio**

Program Assistants  
**Jhonina Mae Alonzo**  
**Isabel Maria R. Camus**  
**Marie Gabrielle G. Jimenez**  
**Dave Victor P. Mariano**  
**Lord Leomer B. Pomperada**

## Program Management Unit National Government Agencies

Program Officer  
**Mary Rose Juliet G. Anatalio**

Program Assistants  
**Bernice Anne S. Esguerra**  
**Maria Jose Guadalupe R. Luistro**  
**Jaime Roberto D. Nemeño**  
**Matthew Victor B. Yamamoto**

## Administrative and Finance Unit

Chief Finance Officer  
**Joey F. Sy**

Administrative Officer  
**Jennifer V. Santos**

Administrative Assistant  
**Julie Mea P. Parreño**

Administrative and Accounting Assistant  
**Maria Esperanza C. Solivar**

Accounting Assistant  
**Melvin G. Ribot**

Corporate Secretary  
**Atty. Jim S. Flores**



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the Institute for Solidarity in Asia, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2013 and 2012. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on best estimates and informed judgment of management with an appropriate consideration to materiality.


In this regard, Management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

Sycip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and Stockholders.



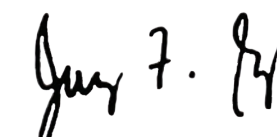
**JESUS P. ESTANISLAO, PH.D.**  
Chairman of the Board



**FRANCISCO C. EIZMENDI, JR.**  
President



**CHRISTIAN P. ZAENS**  
Executive Director



**JOEY F. SY**  
Chief Finance and Accounting Officer

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Institute for Solidarity in Asia, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Institute for Solidarity in Asia, Inc. (a nonstock, nonprofit organization), which comprise the statements of assets, liabilities and fund balance as at December 31, 2013 and 2012, and the statements of revenues and expenses, statements of changes in fund balance and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities, and for such internal control as management determines is necessary to enable the preparation of statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities and fund balance of Institute for Solidarity in Asia, Inc. as at December 31, 2013 and 2012, and its revenues and expenses and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities.

**Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 14 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Institute for Solidarity in Asia, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

*Maria Veronica Andresa R. Pore*  
Maria Veronica Andresa R. Pore  
Partner  
CPA Certificate No. 90349  
SEC Accreditation No. 0662-AR-2 (Group A),  
March 26, 2014, valid until March 25, 2017  
Tax Identification No. 164-533-282  
BIR Accreditation No. 08-001998-71-2012,  
April 11, 2012, valid until April 10, 2015  
PTR No. 4225202, January 2, 2014, Makati City  
  
April 7, 2014

**INSTITUTE FOR SOLIDARITY IN ASIA, INC.**

**(A Nonstock, Nonprofit Organization)**

**STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE**

	December 31	
	2013	2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	<b>₱834,877</b>	₱647,235
Receivables (Note 4)	<b>3,666,570</b>	1,798,574
Prepayments and other current assets (Note 5)	<b>319,261</b>	1,381,561
<b>Total Current Assets</b>	<b>4,820,708</b>	3,827,370
<b>Noncurrent Assets</b>		
Property and equipment (Note 6)	<b>22,218,279</b>	23,268,578
Other noncurrent assets	<b>–</b>	2,061
<b>Total Noncurrent Assets</b>	<b>22,218,279</b>	23,270,639
<b>TOTAL ASSETS</b>	<b>₱27,038,987</b>	₱27,098,009
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Current Liabilities</b>		
Accrued expenses and other payables (Note 7)	<b>₱2,613,072</b>	₱2,805,646
Payables to the Chairman (Note 8)	<b>11,578,497</b>	9,565,973
Current portion of loan payable (Note 9)	<b>1,000,305</b>	492,756
<b>Total Current Liabilities</b>	<b>15,191,874</b>	12,864,375
<b>Noncurrent Liabilities</b>		
Retirement benefit liability (Note 13)	<b>368,649</b>	884,271
Loan payable - net of current portion (Note 9)	<b>11,176,429</b>	14,568,077
<b>Total Noncurrent Liabilities</b>	<b>11,545,078</b>	15,452,348
General fund	<b>302,035</b>	(1,218,714)
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>₱27,038,987</b>	₱27,098,009

*See accompanying Notes to Financial Statements.*





INSTITUTE FOR SOLIDARITY IN ASIA, INC.  
(A Nonstock, Nonprofit Organization)

STATEMENTS OF REVENUES AND EXPENSES

	Years Ended December 31	
	2013	2012
<b>REVENUES</b>		
Programs, donations and contributions (Note 10)	₱24,139,209	₱24,017,042
Grants (Note 10)	5,339,364	4,071,334
Interest and other income	869,084	267,426
	<b>30,347,657</b>	<b>28,355,802</b>
<b>EXPENSES</b>		
Program costs (Note 10)	19,733,212	14,747,480
General and administrative expenses (Note 11)	4,927,958	6,152,934
Interest expense (Notes 8 and 9)	3,368,176	1,061,217
Miscellaneous	797,562	654,975
	<b>28,826,908</b>	<b>22,616,606</b>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b>₱1,520,749</b>	<b>₱5,739,196</b>

See accompanying Notes to Financial Statements.



INSTITUTE FOR SOLIDARITY IN ASIA, INC.  
(A Nonstock, Nonprofit Organization)

STATEMENTS OF CHANGES IN FUND BALANCE  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Balance at January 1, 2012	(₱6,957,910)
Excess of revenues over expenses	5,739,196
Balance at December 31, 2012	(1,218,714)
Excess of revenues over expenses	1,520,749
Balance at December 31, 2013	₱302,035

See accompanying Notes to Financial Statements.





INSTITUTE FOR SOLIDARITY IN ASIA, INC.  
(A Nonstock, Nonprofit Organization)  
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	₱1,520,749	₱5,739,196
Adjustments for:		
Interest expense (Notes 8 and 9)	3,368,176	1,061,217
Depreciation and amortization (Note 6)	1,293,341	418,608
Retirement benefit expense (reversal) (Note 13)	(515,622)	884,271
Unrealized foreign exchange loss (gain)	(145,403)	32,300
Interest income	(3,159)	(2,797)
Operating income before working capital changes	5,518,082	8,132,795
Decrease (increase) in:		
Receivables	(1,188,864)	(3,639,583)
Prepayments and other current assets	383,168	(1,381,561)
Increase (decrease) in:		
Accrued expenses and other payables	1,133,107	838,703
Payables to the Chairman	(1,355,652)	(3,263,978)
Net cash generated from operations	4,489,841	686,376
Interest received	3,159	2,797
Interest paid	(1,325,681)	—
Net cash flows from operating activities	3,167,319	689,173
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment (Note 6)	(243,042)	(985,800)
Decrease in other noncurrent assets	2,061	737,071
Net cash flows used in investing activities	(240,981)	(248,729)
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>		
Payment of loan payable	(2,884,099)	—
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	145,403	(32,300)
<b>NET INCREASE IN CASH</b>	187,642	408,144
<b>CASH AT BEGINNING OF YEAR</b>	647,235	239,091
<b>CASH AT END OF YEAR</b>	₱834,877	₱647,235

See accompanying Notes to Financial Statements.



INSTITUTE FOR SOLIDARITY IN ASIA, INC.  
(A Nonstock, Nonprofit Organization)  
NOTES TO FINANCIAL STATEMENTS

1. Organization, Tax Exemption and Authorization for Issuance

Organization

Institute for Solidarity in Asia, Inc. (ISA or the Organization) was registered with the Philippine Securities and Exchange Commission (SEC) as a nonstock, nonprofit organization on September 20, 1999. It is organized primarily to inculcate and nurture the spirit of community and cooperation among people in the Asia-Pacific Region and to contribute to the social, economic and financial reform and development agenda of the region.

The registered office address of the Organization is 9th Floor, Philamlife Tower, 8767 Paseo de Roxas, Makati City. The Organization’s principal place of business is at 14th Floor, Trident Tower Condominium, H.V. Dela Costa Street, Salcedo Village, 1227 Makati City (see Notes 6 and 12). The Organization updated its office address with the Bureau of Internal Revenue. As of April 7, 2014, the Organization is yet to file its application with the Philippine SEC for the change in its registered office address.

Tax Exemption

The Organization, being a nonstock, nonprofit organization, falls under Section 30 (G), of Republic Act No. 8424 entitled “An Act of Amending the National Internal Revenue Code as Amended, and For Other Purposes”. The income from activities conducted in pursuit of the objectives for which the Organization was established is exempt from income tax. However, any income on any of its properties, real or personal, or from any activity conducted for profit regardless of the disposition of such income, is subject to income tax. On November 16, 2009, the BIR issued a ruling in favor of the Organization to be exempted from payment of taxes. As of April 7, 2014, pursuant to Revenue Memorandum Order No. 20-2013 dated July 22, 2013, which prescribes the policies and guidelines in the issuance of tax exemption rulings to qualified nonstock, nonprofit corporations and associations under Section 30 of the National Internal Revenue Code of 1997, as amended, the Organization’s application for tax exemption/revalidation with the BIR is in progress.

Authorization for Issuance

The Organization’s financial statements as at and for the years ended December 31, 2013 and 2012 were authorized for issue by the Board of Trustees (BOT) on April 7, 2014.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements of the Organization have been prepared under the historical cost basis and presented in Philippine peso, which is the Organization’s functional currency.

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

Cash

Cash includes cash in banks which are not restricted in its use.





Receivables

Receivables, which are based on normal credit terms and do not bear interest, are recognized and carried at original invoice amounts. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in the statement of revenues and expenses.

If there is objective evidence that an impairment loss on receivables has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in the statement of revenues and expenses.

Prepayments and Other Current Assets

Prepayments and other current assets are assets held by the Organization, which are expected to be realized and consumed within twelve months after the reporting date.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment loss.

The initial cost of property and equipment consists of its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to expense in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets or the term of the lease as in the case of leasehold improvements, whichever is shorter, as follows:

Category	Number of Years
Condominium unit	25
Office improvements	15
Leasehold improvements	3
Office equipment	5
Furniture and fixtures	3-5

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts, and any resulting gain or loss is included in the statement of revenues and expenses.



Impairment of Property and Equipment

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written-down to their estimated recoverable amount. The estimated recoverable amount is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in the statement of revenues and expenses.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in the statement of revenues and expenses. However, the increased carrying amount of an asset due to reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Accrued Expenses and Other Payables

Accrued expenses and other payables are obligations arising directly from the Organization's main operating activities on the basis of normal credit terms and do not bear interest.

Provisions

Provisions are recognized when the Organization has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where the Organization expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of revenues and expenses, net of any reimbursement.

Fund Balance

The amount included in fund balance includes accumulated excess of revenues over expenses from the Organization's activities. The fund balance may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefit associated with the transaction will flow to the Organization and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:





#### Grants

Grants are recognized when the scope of work and the purpose of the grants stipulated in the agreements are performed and the donor's imposed conditions are substantially complied.

#### Donations and Contributions

Donations and contributions are recorded when received.

#### Programs

Proceeds from programs are recognized as revenue when participants enroll in the related activities.

#### Interest and Other Income

Interest is recognized as it accrues using the effective interest method while other income is recognized when earned.

#### Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expenses arise.

#### Operating Leases

Lease payments under operating leases, in which substantially all the risks and rewards of ownership of the leased assets remain with the lessor, are charged to expense as incurred on a straight-line basis over the terms of the leases.

#### Retirement Benefit Obligation

Under Section 28 of PFRS for SMEs, *Employee Benefits*, the cost of defined benefit plan, including those mandated under Republic Act No. 7641, may be determined using a projected unit credit method. If the Organization is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost under defined benefit plans, the Organization is permitted to make simplifications. PFRS for SMEs does not require the Organization to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate the defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually.

The Organization has not undertaken actuarial valuation since management believes that using such valuation would create undue cost or effort and the effect on the financial statements of the difference between the retirement costs determined under the current method used by the Organization and an acceptable actuarial valuation method is not significant.

#### Foreign Currency Transactions

Foreign currency transactions are recorded in Philippine peso using the exchange rate prevailing at the date of transactions. Foreign currency-denominated monetary assets and liabilities are translated using the closing exchange rate prevailing at the reporting date. Foreign exchange difference between the rates at transaction date and settlement date or reporting date are recognize in the statement of revenues and expenses.

#### Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefit is probable.

#### Events After the Reporting Date

Post year-end events that provide additional information about the Organization's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

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### 3. **Significant Accounting Judgments and Estimates**

The Organization's financial statements prepared in accordance with PFRS for SMEs require management to make judgements and estimates that affect the amounts reported in the financial statements and related notes. The judgments and estimates used in the financial statements are based upon the management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Judgments and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgments

##### *Determining Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Organization, the functional currency of the Organization has been determined to be the Philippine peso. It is the currency of the primary economic environment in which the Organization operates. It is the currency that mainly influences its revenues and expenses.

##### *Determining Classification of Lease*

The Organization has entered into a lease agreement as a lessee. The Organization has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out on operating lease.

#### Estimates

##### *Estimating Allowance for Impairment Losses on Receivables*

The Organization reviews its receivables at each reporting date to assess whether an allowance for impairment losses should be recognized in the statement of revenues and expenses. In particular, judgment by BOT is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance.

As of December 31, 2013 and 2012, the carrying values of receivables amounted to ₱3,666,570 and ₱1,798,574, respectively (see Note 4). No provision for impairment losses on receivables was recognized in 2013 and 2012.





*Estimating Useful Lives of Property and Equipment*

The Organization estimates the useful lives of property and equipment based on the period over which assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

Depreciation and amortization charged to operations amounted to ₱1,293,341 and ₱418,608 in 2013 and 2012, respectively (see Notes 6 and 11). As of December 31, 2013 and 2012, the carrying values of property and equipment amounted to ₱22,218,279 and ₱23,268,578, respectively (see Note 6).

*Estimating Impairment Losses on Property and Equipment*

The Organization assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Organization considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

As of December 31, 2013 and 2012, the carrying values of property and equipment amounted to ₱22,218,279 and ₱23,268,578, respectively (see Note 6). No provision for impairment loss was recognized in 2013 and 2012.

*Determining Retirement Benefit Costs*

Since the Organization is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost for retirement under defined benefit plans, the Organization is permitted to make simplifications under PFRS for SMEs. Management believes that the effect on the financial statements of the difference between the retirement benefit costs determined under the current method used by the Organization and an acceptable actuarial valuation method is not significant.

Reversal of the retirement benefit obligation amounted to ₱515,622 in 2013. Retirement benefit expense amounted to ₱884,271 in 2012. Retirement benefit liability amounted to ₱368,649 and ₱884,271 as of December 31, 2013 and 2012, respectively (see Note 13).

*Determination of Uncertain Tax Positions*

Changes in the probability-weighted average amount of all possible outcomes must be based on new information, not a new interpretation by the Organization of previously available information. There is no probability threshold applied to the recognition of an uncertain tax position.

**4. Receivables**

	2013	2012
Receivables	<b>₱2,849,913</b>	₱700,000
Advances to officers and employees	<b>95,175</b>	167,989
Advances to Institute of Corporate Directors, Inc. (ICD; see Note 8)	—	930,585
Others (see Note 5)	<b>721,482</b>	—
	<b>₱3,666,570</b>	<b>₱1,798,574</b>

Receivables pertain to noninterest-bearing receivables from public institutions and sectoral groups who enrolled in the programs and services of the Organization.

Advances to officers and employees represent cash advances made by officers and employees for their out-of-town assignments which remained unliquidated and outstanding as of December 31, 2013 and 2012.

Other receivables mainly pertain to advance rent and security deposit recoverable from the lessor because of the pre-termination of the lease contract and the advances to the Organization's interior designer (see Note 5).

These receivables are assessed as collectible and in good standing.

**5. Prepayments and Other Current Assets**

	2013	2012
Performance bond	<b>₱237,440</b>	₱95,750
Restricted Cash	<b>80,000</b>	—
Prepayments	—	606,679
Security deposit (see Notes 4 and 12)	—	396,000
Advanced rent (see Notes 4 and 12)	—	283,132
Other asset	<b>1,821</b>	—
	<b>₱319,261</b>	<b>₱1,381,561</b>

Performance bond refers to the amount paid to the City of Bais, Clark Development Corporation, Province of Bataan and Butuan City as a security for the completion of the services to be rendered by the Organization aggregating to ₱237,440 and ₱95,750 as of December 31, 2013 and 2012, respectively.

Restricted cash pertains to the hold-out amount in the Organization's bank in favor of Provincial Government of Bataan in connection with the bidding required of the latter for the professional services for Performance Governance System Initiation Stage to be rendered by the Organization.

Prepayments in 2012 represent advance payments made by the Organization for "ISA January 2013 Boot Camp" in Cebu.





## 6. Property and Equipment

### 2013

	Condominium Unit	Office Improvements	Leasehold Improvements	Office Equipment	Furnitures and Fixtures	Total
<b>Cost:</b>						
Beginning balances	₱18,500,000	₱3,843,954	₱3,312,620	₱1,096,683	₱1,796,619	₱28,549,876
Additions	—	—	—	198,223	44,819	243,042
Ending balances	18,500,000	3,843,954	3,312,620	1,294,906	1,841,438	28,792,918
<b>Accumulated depreciation and amortization:</b>						
Beginning balances	123,333	42,711	3,312,620	794,340	1,008,294	5,281,298
Depreciation and amortization (see Note 11)	740,000	256,264	—	124,255	172,822	1,293,341
Ending balances	863,333	298,975	3,312,620	918,595	1,181,116	6,574,639
Net book values	₱17,636,667	₱3,544,979	₱—	₱376,311	₱660,322	₱22,218,279

### 2012

	Condominium Unit	Office Improvements	Leasehold Improvements	Office Equipment	Furnitures and Fixtures	Total
<b>Cost:</b>						
Beginning balances	₱—	₱—	₱3,312,620	₱919,565	₱987,937	₱5,220,122
Additions	18,500,000	3,843,954	—	177,118	808,682	23,329,754
Ending balances	18,500,000	3,843,954	3,312,620	1,096,683	1,796,619	28,549,876
<b>Accumulated depreciation and amortization:</b>						
Beginning balances	—	—	3,160,194	729,491	973,005	4,862,690
Depreciation and amortization (see Note 11)	123,333	42,711	152,426	64,849	35,289	418,608
Ending balances	123,333	42,711	3,312,620	794,340	1,008,294	5,281,298
Net book values	₱18,376,667	₱3,801,243	₱—	₱302,343	₱788,325	₱23,268,578

The cost of fully depreciated property and equipment amounted to ₱1,629,997 as of December 31, 2013 and 2012. These are retained in the records and are still used by the Organization until they are disposed.

In 2012, noncash transaction representing share of the Organization on the condominium unit and office improvements amounting to ₱22,343,954 was presented as part of additions (see Note 9).



## 7. Accrued Expenses and Other Payables

	2013	2012
Accrued expenses		
Professional fees	₱1,320,000	₱740,000
Transportation	143,058	231,826
Interest	35,566	1,325,681
Utilities	30,051	—
Communication	13,667	16,274
Others	56,805	92,689
Advances from ICD (see Note 8)	352,735	—
Other payables	661,190	399,176
	₱2,613,072	₱2,805,646

Accrued expenses are noninterest-bearing and are generally on 30 to 90 days' term. Other payables pertain to government payables and unearned revenue from bootcamp.

## 8. Related Party Transactions

Related party transactions are entered under the normal course of business. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control or common significant influence. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

The Organization has entered into transactions with its Chairman and affiliate in the normal course of business.

	Amount		Outstanding Balance		Terms and Condition
	2013	2012	2013	2012	
<i>Chairman</i>					
Advances	₱—	₱—	₱9,730,497	₱8,215,973	Interest-bearing; unsecured
Professional Fees	1,848,000	1,350,000	1,848,000	1,350,000	Interest-bearing; unsecured
Payable to Chairman	₱1,848,000	₱1,350,000	₱11,578,497	₱9,565,973	
<i>Affiliate</i>					
ICD					
Advances to ICD	₱—	₱5,800,000	₱—	₱5,800,000	Noninterest-bearing; unsecured
Advances from ICD	352,735	4,869,415	352,735	4,869,415	Noninterest-bearing; unsecured
Advances to (from) ICD	(₱352,735)	₱930,585	(₱352,735)	₱930,585	

Payables to the Chairman pertain to advances made to the Organization to support the design, organization and delivery and administration of the programs of the Organization prior to receipt of financial commitment from the funding agencies and professional fees as speaker, trainor and facilitator on various Performance Governance System (PGS) forums, bootcamps and interventions with the Organization's partners. Interest expense recognized in 2013 amounted to ₱2,006,929.





Advances to ICD in 2012 pertain to the grants received by the Organization from the Union Bank of the Philippines (UBP) (see Note 10).

Advances from ICD represent expenses paid by ICD in behalf of the Organization including loan settlement (see Note 9).

All payables are due and demandable and are settled in cash.

#### 9. Loan Payable

	2013	2012
Current portion	<b>₱1,000,305</b>	₱492,756
Noncurrent portion	<b>11,176,429</b>	14,568,077
	<b>₱12,176,734</b>	₱15,060,833

In 2012, the Organization and ICD obtained a loan from the UBP for the acquisition of condominium unit in Trident Tower worth ₱37,000,000. The loan will be settled on a 50-50 basis between the Organization and ICD through joint efforts to undertake fund raising activities to generate the necessary cash to complete the payment of the obligation. The 10.0% of the loan is payable over five (5) equal monthly installments and the remaining balance is payable in equal monthly installments of ₱378,487 over fifteen (15) years with an interest rate of 11.0% per annum.

On October 11, 2013, amendments to the contract were made. The outstanding balance of the loan as of July 16, 2013 amounting to ₱25,293,757 shall be paid until May 16, 2027 with an interest thereon at the new rate equivalent to the average of 10-year and 20-year PDSTF plus 2.5% with re-pricing every six months in equal and successive monthly installments of ₱300,000.

Interest expense on loans amounted to ₱1,361,247 and ₱1,061,217 in 2013 and 2012, respectively.

#### 10. Programs, Donations and Contributions, Grants and Program Costs

The Organization received grants, donations and contributions which were used to finance project costs. These are presented as “Programs, donations and contributions” and “Grants” in the statement of revenues and expenses.

	2013	2012
Programs, donations and contributions:		
Programs, bootcamp and conference fees	<b>₱21,065,370</b>	₱12,772,940
Sponsorship and donation	<b>3,073,839</b>	11,244,102
	<b>24,139,209</b>	24,017,042
Grants:		
The Center for International Private Enterprise	<b>5,339,364</b>	4,071,334
	<b>₱29,478,573</b>	₱28,088,376
Program costs:		
Seminars, conference and exhibits	<b>₱18,150,900</b>	₱12,645,287
Travel and transportation expenses	<b>1,326,909</b>	1,722,572
Printing and publication	<b>255,403</b>	379,621
	<b>₱19,733,212</b>	₱14,747,480

Below is a brief description of the programs, donations and contributions and grants received by the Organization in 2013 and 2012:

#### Programs, donations and contributions

The Organization works with institutions and individuals who believe and act upon the mission to deliver real government performance. To promote the public governance advocacy, the Organization uses the PGS, a strategic management tool that enables an entire community to channel its energies, abilities and knowledge to pursuing one path towards long-term development. Those who sign up to undergo PGS process become the Organization’s PGS partners. Each year, the Organization organizes bi-annual boot camps that provide its PGS partners with intensive values and management training. During 2013 and 2012, the Organization organized bootcamps in January and in July. The Organization also convenes a semi-annual Public Governance Forum where PGS partners deliver performance reports using their governance scorecards. The two forums organized by the Organization in 2013 happened in April and in October while the 2012 forums happened in March and in October. Various seminars, conferences, and exhibits are also organized by the Organization throughout the year to promote and deliver its advocacy.

In organizing the above activities, the Organization collects membership and registration fees for funding purposes. The said activities also served as an avenue for the Organization to solicit funds from various sponsors and donors. Total revenues recognized amounted to ₱24,139,209 and ₱24,017,042 in 2013 and 2012, respectively.

#### Grants

##### *The Center for International Private Enterprise*

On September 20, 2011, the Organization entered into a new grant agreement with the Center for International Private Enterprise (CIPE) to continue its advocacy with the new proposed project “Propagating Good Governance in the Philippines and East Asia (Phase 8)”. This shall be for a period of twelve months from October 1, 2011 through September 30, 2012 with a grant amounting to \$125,153 or approximately ₱5,486,708 using the exchange rate of ₱43.84 to \$1 as of December 31, 2011.

On October 19, 2012, the Organization entered into another new grant agreement with CIPE to continue its advocacy with the new proposed project “Improving Public Governance in the Philippines (Phase 9)”. This shall be for a period of twelve months from October 1, 2012 to September 30, 2013. The grant agreement was extended until November 30, 2013.

Total revenues recognized from grants amounted to \$128,698 (₱5,339,364) and \$95,847 (₱4,071,334) in 2013 and 2012, respectively. Total costs incurred by the Organization amounted to ₱4,042,178 and ₱7,077,426 in 2013 and 2012, respectively.

#### Grant received by the Organization subsequent to December 31, 2013

##### *The Union Bank of the Philippines*

On December 20, 2013, the Organization entered into a Memorandum of Agreement (MOA) with UBP whereas the former will create the position of Human Resource Manager and Supervising Fellow for Local Government Units. Based on the MOA, UBP will donate ₱2,000,000 which covers the period of support from January 15, 2014 to January 15, 2015 to fund the compensation of those who will occupy the abovementioned positions. The grant was received in March 2014.





# 11. General and Administrative Expenses

	2013	2012
Salaries, allowances and employee benefits	₱1,424,437	₱1,229,968
Depreciation and amortization (see Note 6)	1,293,341	418,608
Communication, light and water	807,902	516,248
Professional fees	488,208	316,706
Association dues	473,782	809,330
Representation and entertainment	195,161	155,784
Contract labor	168,087	79,966
Rent (see Note 12)	63,158	1,742,053
Retirement benefit expense (see Note 13)	–	884,271
Others	13,882	–
	₱4,927,958	₱6,152,934

# 12. Lease Commitment

The Organization entered into a lease agreement with Philam Properties Corporation (the Lessor) which was represented by Philamlife Tower Management Corporation as its leasing agent. The lease agreement is for a period of five (5) years from August 1, 2008 to July 31, 2013. The agreement provides the Organization the right to lease the condominium units and parking spaces of the Lessor in exchange for monthly lease payments which is subject to 7% annual escalation. Furthermore, the leasing agreement stipulates that the Organization will deposit with the Lessor, a security deposit of three (3) months rent amounting to ₱396,000 and advanced rent amounting to ₱283,132. The advanced rent will be applied on the last three months of the lease term while the security deposit will be refunded to the Organization at the end of the lease term (see Notes 4 and 5). Rent expense for the office space amounted to ₱1,742,053 in 2012 (see Note 11). The lease was preterminated on October 31, 2012 since the Organization transferred to a new office in Trident building in November 2012.

# 13. Retirement Benefit Costs

The Organization has an unfunded, noncontributory defined benefit covering all of its regular employees. The benefits are based on the years of service and percentage of latest monthly salary.

Because of undue cost and effort in measuring pension liability under defined benefit plan using the projected unit credit method, the Organization elected to measure its defined benefit obligation with respect to current employees with the following simplifications:

- Ignored estimated future salary increases
- Ignored future service of current employees
- Ignored possible in - service mortality of current employees between December 31, 2013 and the date employees are expected to begin receiving post-employment benefits.

The balance of retirement benefit liability as of December 31 follows:

	2013	2012
At January 1	₱884,271	₱–
Additional accrual during the year (see Note 11)	–	884,271
Reversal of accrual	(515,622)	–
At December 31	₱368,649	₱884,271

# 14. Supplementary Tax Information Under Revenue Regulation 15-2010

The Organization reported and/or paid the following type of taxes as of and for the year ended December 31, 2013:

## Withholding Taxes

Expanded withholding taxes	₱866,606
Withholding taxes on compensation and benefits	406,412
Total	₱1,273,018

## Other Taxes and Licenses

The Organization paid license and permit fees amounting to ₱107,707 and are presented as part of “Taxes and licenses” under “Miscellaneous expenses” in the 2013 statement of revenues and expenses.

Real estate tax - 2013	₱53,195
Real estate tax - 2012	42,757
Business permit	8,155
Documentary stamp tax	2,000
Penalty on late printing of official receipts	1,000
Annual registration fee	500
Certification for tax clearance	100
Total	₱107,707

